

**REPORT OF THE AUDIT OF THE
FORMER MADISON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 16, 2006 Through December 31, 2006**

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To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran Jr., Former Madison County Sheriff
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the former Madison County Sheriff's Settlement - 2006 Taxes for the period April 16, 2006 through December 31, 2006. This tax settlement is the responsibility of the former Madison County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Madison County Sheriff's taxes charged, credited, and paid for the period April 16, 2006 through December 31, 2006, in conformity with the modified cash basis of accounting.

To the People of Kentucky

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Honorable Nelson O'Donnell, Madison County Sheriff

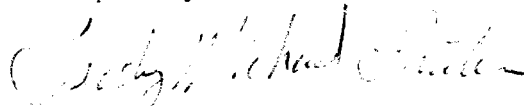
Members of the Madison County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 12, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Teddy Michael Prater".

Teddy Michael Prater CPA, PLLC

July 12, 2007

MADISON COUNTY
 CECIL COCHRAN, JR., FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT-2006 TAXES

For The Period
 April 16, 2006 Through December 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 2,549,292	\$ 4,911,984	\$ 17,029,410	\$ 3,979,382
Tangible Personal Property	229,307	650,436	1,348,886	1,337,762
Fire Protection	66			
Increases Through Exonerations	1,490	2,992	9,569	2,634
Franchise Corporation	77,259	152,839	478,596	
Additional Billings	6,686	12,800	43,619	10,436
Prior Year Additional Bills	724	1,326	4,753	1,143
Bank Franchises	183,796			
Penalties	16	33	98	
Adjusted to Sheriff's Receipt	635	1,467	31	1,002
Gross Chargeable to Sheriff	<u>3,049,271</u>	<u>5,733,877</u>	<u>18,914,962</u>	<u>5,332,360</u>
<u>Credits</u>				
Exonerations	17,472	33,857	115,917	27,965
Discounts	47,944	89,055	292,559	87,581
Prior Year Franchise Certified and Uncollected	313	630	1,846	
Transferred To Incoming Sheriff	<u>289,844</u>	<u>564,328</u>	<u>1,938,967</u>	<u>471,241</u>
Total Credits	<u>355,573</u>	<u>687,870</u>	<u>2,349,289</u>	<u>586,788</u>
Taxes Collected	2,693,698	5,046,007	16,565,673	4,745,572
Less: Commissions *	<u>114,770</u>	<u>210,338</u>	<u>248,485</u>	<u>201,974</u>
Taxes Due	2,578,928	4,835,669	16,317,188	4,543,598
Taxes Paid	2,576,772	4,831,561	16,302,502	4,540,166
Refunds (Current and Prior Year)	<u>2,156</u>	<u>4,108</u>	<u>14,686</u>	<u>3,432</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

10% on \$ 10,000
 4.25% on 10,828,676
 4% on 1,646,602
 1.5% on 16,565,673

The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
 CECIL COCHRAN, JR., FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT-2006 TAXES

ForThe Period
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The accompanying notes are an integral part of this financial statement.

MADISON COUNTY
CECIL COCHRAN Jr., FORMER COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MADISON COUNTY
CECIL COCHRAN Jr., FORMER COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk-Deposit

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). For the period April 16, 2006 through December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2006 through December 31 2006.

Note 4. Interest Income

The former Madison County Sheriff earned \$57,289 as interest income on 2006 taxes. The former Sheriff was in substantial compliance with his statutory duty regarding interest.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable duplicate payments and unexplained receipts into an interest-bearing account. According to KRS 393.110, the sheriff should properly report annually to the Kentucky State Treasurer any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. Therefore, the former Sheriff should send a written report to the Kentucky State Treasurer. For the period April 16, 2006 through December 31, 2006, the balance in the former Sheriff's tax account was \$15,002. The former Sheriff did not use an escrow account for unrefundable and unexplained receipts but rather permitted the money to accumulate in the tax account. The former Sheriff should determine what portion of the funds have been in the account for three years or more and submit these funds to the Kentucky State Treasurer.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TEDDY MICHAEL PRATER CPA, PLLC
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The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil Cochran Jr., Former Madison County Sheriff
Honorable Nelson O'Donnell, Madison County Sheriff
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Madison County Sheriff's Settlement - 2006 Taxes for the period April 16, 2006 through December 31, 2006, and have issued our report thereon dated July 12, 2007. The former sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Madison County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Madison County Sheriff's internal control over financing reporting. Accordingly, we do not express an opinion on the effectiveness of the former Madison County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposed described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely effects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

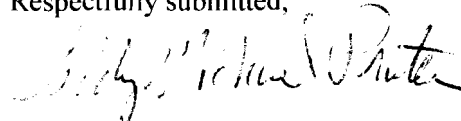
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered a material weakness. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Madison County Sheriff's Settlement - 2006 Taxes for the period April 16, 2006 through December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Madison County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

July 12, 2007

COMMENT AND RECOMMENDATION

MADISON COUNTY
CECIL COCHRAN Jr., FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

December 31, 2006

INTERNAL CONTROL-SIGNIFICANT DEFICIENCY AND MATERIAL EAKNESS:

The Former Madison County Sheriff's Office Lacked Adequate Segregation Of Duties

The former Madison County Sheriff's office lacked adequate segregation of duties for receipts and disbursements. The employee who recorded cash receipts also prepared the deposits and completed the bank reconciliations. Good internal control dictate that the same employee should not handle, record, and reconcile cash receipts. If these duties could not be segregated, the Sheriff should have implemented compensating controls such as recounting and agreeing the daily deposits to daily tax reports, agreeing daily deposits to receipts ledger, and reviewing the monthly bank reconciliations.

Sheriff's Response: None

PRIOR YEAR COMMENTS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties -- This comment was not corrected and is repeated above.